

Message Text

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47

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SAM-01 SSO-00 NSCE-00 INRE-00

USIE-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 SAI-01 AGR-05

TAR-01 HEW-02 DODE-00 PA-01 PRS-01 AF-06 L-03 H-02

FEAE-00 OES-03 /100 W

----- 127102

O R 221555Z DEC 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 5425

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION NATO

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E.O. 11652: N/A

TAGS: ECON, PO

SUBJ: EMERGENCY ECONOMIC MEASURES: COMMENT

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REF: LISBON 7573

1. COUNCIL OF MINISTERS DECISIONS REPORTED REFTEL REPRESENT LIMITED, HALTING STEP TOWARD AUSTERITY. DECISIONS REALLY ENCOMPASS A BROAD MIXTURE OF AUSTERITY, STIMULATIVE AND ADMINISTRATIVE MEASURES. A NUMBER OF ANTICIPATED MEASURES, SUCH AS PRICE INCREASES, WERE NOT MENTIONED. DECISIONS INDICATE CLEARLY THAT GOP OPTING FOR GRADUAL RATHER THAN ABRUPT IMPLEMENTATION OF AUSTERITY PROGRAM, HOPING TO MINIMIZE IMPACT OF PROGRAM ON LOWEST INCOME SECTORS.

2. ANNOUNCED TAX INCREASES REPRESENT THE ONLY GENUINE AUSTERITY DECISIONS. IMPORTANCE OF THESE MEASURES CANNOT BE GAUGED UNTIL GOP CLARIFIES ACTION TAKEN, E.G., PUBLISHES LIST OF ITEMS AFFECTED BY INCREASED SALES TAXES. THIS SITUATION IS SIMILAR TO THAT OF SEVERAL OTHER AREAS. COMMUNIQUE ANNOUNCED APPROVAL OF FOREIGN INVESTMENT CODE AND OF ENERGY CONSERVATION MEASURES, BUT DID NOT PROVIDE ANY SPECIFICS.

3. SEVERAL OF THE ANNOUNCED MEASURES WILL HAVE LITTLE IF ANY PRACTICAL EFFECT. DECISIONS TO ASSIST EXPORTS ARE SIGNIFICANT, BUT ARE MUCH TOO SMALL. SIMILARLY, SPECIAL TREATMENT FOR IMMIGRANT SAVINGS, THOUGH A POSITIVE STEP, UNLIKELY TO INCREASE SUCH REMITTANCES MEASURABLY IN THE SHORT TERM. PRACTICAL IMPACT OF REDUCTION IN REDISCOUNT RATE WILL BE MINIMAL. THIS MEASURE DESIGNED LARGELY TO REDUCE OPERATING LOSSES OF COMMERCIAL BANKING SYSTEM, WHICH HAS ALREADY BORROWED EXCESSIVELY FROM BANK OF PORTUGAL. ESTABLISHMENT OF PREFERENTIAL DISCOUNT RATE FOR AGRICULTURAL AND FISHING SECTORS WILL NOT DIVERT MUCH INVESTMENT CAPITAL INTO THOSE SECTORS. LOANS TO THESE AND OTHER SECTORS DURING THE PAST YEAR HAVE GENERALLY BEEN MADE ON POLITICAL RATHER THAN ECONOMIC CRITERIA. REDISCOUNT RATES HAVE HAD LITTLE IMPACT.

4. TWO OF THE ANNOUNCED MEASURES ARE SOMEWHAT DISQUIETING. THE ISSUANCE OF A 19 BILLION ESCUDO INTERNAL LOAN AND LOAN GUARANTEES FOR FOUR COMPANIES REFLECT GOP DETERMINATION TO SUBSIDIZE EMPLOYMENT. RESOURCES FOR THESE TWO EXPENDITURES WILL COME LARGELY FROM THE COMMERCIAL BANKS AND, ULTIMATELY, FROM BANK OF PORTUGAL. THEY WILL, IN EFFECT, REPRESENT PURE MONETARY INCREASE HEIGHTENING INFLATIONARY PRESSURES.

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5. IN MANY WAYS, MINISTERIAL DECISIONS ARE SIGNIFICANT FOR WHAT THEY FAILED TO MENTION. MANY HAD EXPECTED WAGE POLICY TO BE A CENTRAL PLANK IN GOP AUSTERITY PROGRAM. DECISION ON THIS ISSUE, HOWEVER, HAS APPARENTLY BEEN DELAYED UNTIL DECEMBER 23 MEETING. MANY HAD ALSO EXPECTED APPROVAL AND ANNOUNCEMENT OF SEVERAL SPECIFIC PRICE INCREASES. FAILURE TO ANNOUNCE SUCH INCREASES INDICATES COUNCIL OF MINISTERS WILL NOT ANNOUNCE THESE INCREASES BUT RATHER ALLOW THEM TO BE INTRODUCED BY PERTINENT

MINISTRIES, AS HAPPENED RECENTLY IN THE CASE OF TOBACCO. APPARENTLY POLICY WILL BE TO ANNOUNCE AUSTERITY MEASURES INDIVIDUALLY RATHER THAN PRESENT PUBLIC WITH ONE LARGE PACKAGE. AS THESE AUSTERITY MEASURES ARE IMPLEMENTED, EFFORTS WILL CERTAINLY BE MADE TO ATTENUATE SOME OF THEIR IMPACT ON LOWEST INCOME SECTORS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, EMERGENCY PLANNING, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 22 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LISBON07585
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750444-0271
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751219/aaaaaqj.tel
Line Count: 122
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 LISBON 7573
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by MartinML>; APPROVED <07 AUG 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EMERGENCY ECONOMIC MEASURES: COMMENT LIMITED OFFICIAL USE
TAGS: ECON, PO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006